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December 1, 1986

Advertising Age®

Crain's International Newspaper of Marketing. In Two Sections. Section 1.

Army attacks Ayer

Threat of indictments spurs Pentagon to act

By JANET MEYERS and STEWART ALTER

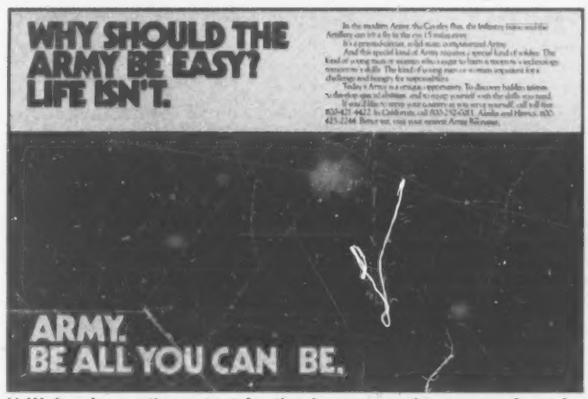
WASHINGTON—The discovery of new evidence of alleged wrongdoing at N W Ayer on the Army recruiting account, cited by the Army to explain its sudden disqualification of Ayer from all government contracts last week, could lead to indictments.

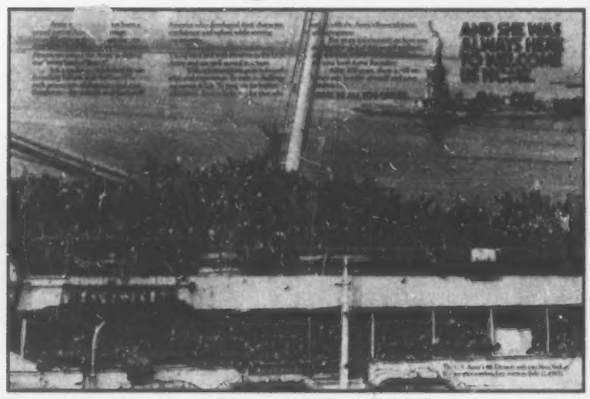
New information reached investigators for the Army and the U.S. attorney in New York in early November, said Major Bruce Bell, an Army department spokesman in Washington.

There are also reports that at least one current Ayer executive, Thomas Donoghue, a vp-account superviser at Ayer Public Relations who worked on the Army assignment, is cooperating with investigators. Mr. Donoghue declined to confirm or deny the report.

Major Bell said he would not "conjecture" about indictments, but an Army source predicted they will be handed down by a New York grand jury, possibly citing conspiracy to defraud and falsification of government documents. The U.S. attorney's office in New York declined comment.

Separately, Major Bell said the Army, which has been in the midst of an agency review, intends to have a new agency handling its $100 million account by Jan. 2. Ayer, which has said it will appeal vigorously its disqualification from government work, also said last week it would ask the Army to delay selection of any new shop for the account.





N W Ayer's creative output for the Army account was not an issue in the decision to bar the agency from further government work. These print ads are part of Ayer's current "Be all you can be" campaign for the Army, which has been well received.

In addition to Ayer, now apparently out of the picture, the finalists for the Army business are Young & Rubicam, BBDO, DFS Dorland Worldwide, SSC&B, all New York, and Ogilvy & Mather, Chicago. The winner is likely to receive a one-year contract with four option years, a package that could be worth half a billion dollars over the five-year period.

Major Bell declined to discuss the nature of the new information obtained last month, but the Army's letter informing Ayer of its disqualification disclosed that "substantial" numbers of former Ayer employes had presented evidence of management involvement in "timecard mischarging," or billing the Army for work not actually done on Army business. It also alleged Ayer conspired with certain subcontractors to rig bids on Army assignments.

A source said at least two former Ayer pr employes based in New York provided investigators with information in recent weeks.

The potential for indictments, said an Army source, forced the Army's hand and led to the decision to immediately disqualify

(Continued on Page 99)

Last Minute News

Quaker sticks $25M to 'Chops'

CHICAGO—Quaker Oats Feb. 2 breaks a $25 million tv and couponing campaign for Ken-L Ration Tender Chops, a semi-moist dog food created to replace its failing Love-Me-Tender Chunks. More than $3.5 million will be spent on a free trial-size promotion in mid-March. J. Walter Thompson USA handles.

Times Mirror buys 'Broadcasting'

LOS ANGELES—Times Mirror Co. has agreed to buy the weekly *Broadcasting* and *Broadcasting Yearbook* from Broadcasting Publications, Washington, for approximately $75 million cash. Broadcasting Publications' owner and president, Lawrence T[illegible]ishoff, will remain publisher. TM said *Broadcasting* will form the nucleus of a "trade publication cluster," described as an "important strategic objective." TM also said it has agreed to buy CRC Press, Boca Raton, Fla., publisher of medical, scientific and technical journals. Purchase price has not been disclosed.

Johnson appeals ruling on Nuprin ads

NEW BRUNSWICK, N.J.—Johnson & Johnson will appeal a federal district court judge's ruling in favor of Bristol-Myers,

(Continued on Page 8)

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Nielsen's meter tally rocks nets

By VERNE GAY

NEW YORK—The first people meter audience measurements for the 1986 tv season reveal that tv's most popular series, "The Cosby Show," has 19% fewer adult female viewers than earlier reported, and that over-all network viewing by women aged 25 to 54 has been overstated by the A.C. Nielsen diaries by an average of 10%.

As widely expected, the people meter ratings for virtually all network tv prime time shows were generally lower than the ratings provided by the Nielsen Television Index meters, which have been recording household viewing since 1954. Discrepancies with Nielsen's National Audience Composition diaries, which provide demographic information and are all-important to advertisers, were far greater than many xperts had predicted.

NBC's people meter results for key women emographics were nearly 14% lower than the tandard NTI diary ratings for the same demographics in October. "The Cosby Show" was off whopping 19% for two key female demo-

(Continued on Page 100)

Colgate tops merger talk

An Advertising Age roundup

NEW YORK—Colgate-Palmolive last week was once again the subject of takeover rumors, fueled by a wild swing in its stock price during trading on Nov. 26. This time, speculation has it that British financier Sir James Goldsmith, fresh from his successful greenmailing of Goodyear Tire & Rubber Co., is now eyeing the package-goods giant.

Other rumors had it that Colgate might be a target of Chesebrough-Pond's as a move to thwart a Chesebrough takeover bid by American Brands.

The rumors came on top of two other takeover bids that were launched last week and the sudden end to another. If the Ivan Boesky scandal has made its mark on takeover mania, it was evident only in Wall Street's new-found disdain for "junk bond" financing.

Among the pre-Thanksgiving financial fodder, in addition to American Brands' offer of $2.8 billion for Chesebrough-Pond's: The Limited Inc. and Edward J. DeBartolo Corp. bidding $1.8 billion for Carter Hawley Hale Stores, in the Limited's second try for the retailer; Irwin Jacobs, chairman, Minstar Corp., offering $3.6 billion, maybe more, to acquire Borg-Warner, and Gillette Co. fending off an unfriendly takeover attempt by Ronald Perelman's Revlon Group.

Neither Colgate nor Chesebrough would comment on the

(Continued on Page 96)

Highlights

Goldsmith eyes Colgate-Palmolive 1

Colgate-Palmolive last week was once again the subject of takeover rumors, fueled by a wild swing in its stock price during trading on Nov. 26. Speculation has it that British financier Sir James Goldsmith is eyeing the package-goods giant.

People meters find fewer women 1

The first people-meter audience measurements for the 1986 tv season reveal that tv's most popular series, "The Cosby Show," has 19% fewer adult female viewers than earlier reported, and that over-all network viewing by women aged 25 to 54 has been overstated by the A.C. Nielsen diaries by an average of 10%.

FCB's global shuffle 6

Foote, Cone & Belding, which blamed international operations for a down year in 1985, is reshuffling executives to solve its international problems and satisfy concerns that there is not enough central control of its multinational accounts.

Eggs appeal 12

The egg industry, like beef and pork a victim of the anti-cholesterol movement, is considering a $23 million advertising and research campaign to revive its appeal in 1987.

Tv spot rated eerie for GM 85

General Motors Corp.'s Chevrolet division plans to give moviegoers a close encounter of the commercial kind with a special-effects-filled 2½-minute teaser for the new Corsica compact.

Unfolding Singleton's story 91

Last June, William Dean Singleton paid $110 million in cash and notes for the *Dallas Times Herald*, a profitable yet troubled metro daily that had proved itself a financial albatross to the giant Times Mirror Co. The burning question among newspaper people is "Can Dean Singleton succeed where Times Mirror could not?"

H&R Block's road to reform 97

H&R Block this year has done away with test campaigns in favor of a single-minded, $8 million ad strategy focusing on next year's tax reform and potentially larger refunds for its customers.

GLOBAL MEDIA

U.S. newsweeklies feel pinch 58

The market for global media, which a year ago looked as if it was about to blossom, looks decidedly different now, according to Ad Age's third annual report. U.S. newsweekly magazines and pan-European tv—the two major, mass-market, global media categories—are hurting.

INTERNATIONAL

European AIDS campaigns 70

The spread of Acquired Immune Deficiency Syndrome is forcing European governments to reexamine bans on contraceptive advertising and launch sexually explicit anti-AIDS tv and print campaigns that previously would have been prohibited. Current regulations on ads for condoms vary widely from country to country. Hard-hitting tv and print campaigns aimed at preventing the spread of AIDS are running in Germany, Norway, Sweden and the U.K.

OTHER NEWS

Lever Bros. is preparing to put $50 million behind the spring introduction of two new fluoride toothpastes with familiar brand names, Extra-Strength Aim and Close-up. Page 3.

Worlds of Wonder, which emerged as *the* success story of Christmas, 1985, with a pricy talking toy bear called Teddy Ruxpin, appears likely to repeat last year's performance with Lazer Tag, a high-tech game. Page 4.

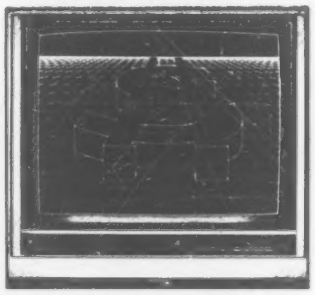
Manning, Selvage & Lee will open a full-service public relations office in Bloomfield Hills, Mich., with a staff nucleus from parent D'Arcy Masius Benton & Bowles. Page 12.

Match Box Toys (USA) Ltd. already has a yule sales hit, a puzzle called Rubik's Magic, and its success is being attributed to public relations. Page 85.

J. Walter Thompson USA's first assignment from American Greetings Corp. is expected to be the introduction of a line of "alternative" cards next year. That will engage the company in a $1 billion segment that has become a hornet's nest of accusations about "copycatting." Page 90.

The Food & Drug Administration's approval last week of aspartame's use in four new food categories could touch off a wave of product and advertising revisions next year. Page 98.

SPECIAL REPORT



Cable tv still is struggling for legitimacy as an advertising medium. Only 1.2% of the $35.5 billion in media billings placed by the top 500 U.S. ad agencies in 1985 went to cable, as opposed to 26.6% to network tv. But the industry has been trying to turn a negative—its narrow reach—into a positive.

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GM study of magazines raises fears

By EDWARD LAPHAM
Crain News Service

General Motors is conducting an in-house study of how its advertising has been positioned in leading consumer magazines.

Bringing in-house the job of what is known as "position analysis" is the latest example of GM's attempt to consolidate at the corporate level advertising-related functions that have been done by the divisions and their ad agencies.

Issues of magazines that carried no GM advertising were included in the study, raising fears among some magazine sales representatives that GM might have another motive.

In fact, ad reps from at least two magazines said they were told the study would include an evaluation of each magazine's editorial coverage of GM. The implication was that favorable editorial coverage of GM might become a prerequisite for GM ad business, the ad representatives said.

GM denied the study is linked to the evaluation of editorial coverage, or that it presages centralized, internal media buying.

The corporation said the study relates strictly to position analysis and termed any other interpretation a "misunderstanding."

Position analysis evaluates where an ad appears in a magazine relative to front, back and surrounding editorial copy. The object is to determine if ads are positioned for maximum visibility and impact.

Traditionally, the media departments at individual ad agencies, not the clients, conduct position

(Continued on Page 8)

Conde Nast tries 'Signature' route

By STUART J. ELLIOTT

New York—A little traveling music, please, as Conde Nast Publications' unexpected disclosure that it intends to acquire Signature brings a new singer into the lucrative, competitive travel magazine choir.

Conde Nast has long been interested in expanding its presence in travel beyond *Gourmet's* editorial coverage of the field. Its new adviser, Harold Evans, had been looking into a travel startup among a number of magazine development projects (AA, Sept. 29).

In taking the travel trip, Conde Nast concluded that "starting from the ground up is very difficult," chairman S.I. (Si) Newhouse Jr. said after the surprise announcement Nov. 25. "This seemed to be the right way to get into it."

Mr. Newhouse hopes to close the acquisition from Citicorp Diners Club by yearend. It is "a case of both of us having antennae," he said. "[Citicorp had] an awareness of our interest in travel."

This decision to buy instead of create came just five days after Time Inc. made the same move, via a joint venture with Working Woman Inc. to publish women's magazines (AA, Nov. 24).

Mr. Newhouse thinks cost is not the determining factor in these instances, because "it's very expensive to start, but it's very expen-

(Continued on Page 96)

West Coast News

Chiat/Day reportedly leading pack for Fox

Los Angeles—Fox Broadcasting Co. is leaning heavily toward Chiat/Day as its first agency of record, sources say. A decision is expected this week. Other finalists include BBDO Worldwide and Della Femina, Travisano & Partners (AA, Nov. 24).

Santa Barbara, Cal.—**Larson, Bateman & McAllister** has become Evans, Hardy & Henry, following the departure of the last original partner, president-ceo Michael McAllister, who left to pursue other interests. Partners are senior vp-management supervisor Jim Evans, vp-creative director Dennis Hardy and vp-account supervisor William Henry.

La Habra, Cal.—**American Stores'** Alpha Beta division will hear presentations this week for its estimated $14 million broadcast account from Los Angeles agencies Admarketing; incumbent Bozell, Jacobs, Kenyon & Eckhardt; Eisaman, Johns & Laws, and JWT/West, sources say. Alpha Beta declined to comment.

San Francisco—**SEH Importers**, distributor for the beer-and-lemonade drink Zele Panache, has pulled its estimated $1 million account in-house from Lewis & Partners, San Francisco.

Los Alamitos, Cal.—**Slim 'n Trim** has ended its relationship with Keller-Crescent, Evansville, Ind., after only nine months (AA, Feb. 24). The dairy products licensor will name a Los Angeles agency in the next two weeks to handle its estimated $2 million account.#

International woes trigger FCB changes

New panels formed for more control

By JULIE SKUR HILL

CHICAGO—Foote, Cone & Belding, which blamed international operations for a down year in 1985, is reshuffling executives to solve its international problems and satisfy concerns that there is not enough central control of its multinational accounts.

The agency has ousted its European chairman, promoted others and formed new international committees, according to sources. It also is planning to buy the remaining shares of its South American network and other agencies worldwide.

Late last month Antonio Beja was promoted from president-ceo to chairman-ceo of Latin America/Pacific/South Africa—a new post. Craig Wiggins was promoted from president and chief operating officer of continental Europe to ceo of FCB/Europe.

FCB also named two board members—Len Sugarman, chairman-ceo of FCB/London, and Mr. Wiggins.

Those board members with international backgrounds—Messrs. Beja, Sugarman and Wiggins and FCB Communications chairman-ceo Norman Brown—also are forming a new international committee to coordinate work in regions.

Mr. Brown said, "It's one thing to be pins on a map and another to coordinate and assist clients. This will help the ability to service global clients."

A multinational new-business (Continued on Page 97)

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AA, Cole survey agency salaries

NEW YORK—Are ad agencies putting their money where their talent is?

There's one way to find out. ADVERTISING AGE and Cole Surveys, Boston, the leading compensation survey organization, are again teaming up to track trends in advertising compensation through the second annual "Survey of Top Management Compensation in Advertising Agencies." The survey provides the most accurate and up-to-date agency salary information available in the business.

Deadline for returning completed questionnaires is Dec. 31, 1986. Agencies that have not received a questionnaire and wish to participate should contact Cole Surveys, 100 Summer St., Boston 02210, or call project director Ed Reilly at 1-800-343-2215.

The first effort (AA, May 19) included salary information on more than 1,600 agency executives.

The questionnaires for the 1986 survey, sent to about 5,000 agencies, request information on salaries, incentive payments, benefits and perquisites. The forms have been simplified; all information that is provided is treated in a confidential manner as to source.

Twenty-one key managerial and creative positions are covered in the survey, from chief executive officer to copy chief. Survey results, broken down by agency type (independent, subsidiary, branch) and by regional and national size groups for precise comparisons, will be published in AD AGE next March. Agencies that submit data receive a reprint of the article and are given an opportunity, via confidentially coded printouts, to see how their own data compare with similar-size agencies.#

WHY BECOME A WASHINGTON EDITOR?

Esquire magazine dubbed him the last great foreign correspondent.

Arnaud de Borchgrave was born in Belgium. At 14, he fled, escaping the Nazis, and joined the British Navy at 15. After the war, he succeeded Walter Cronkite as UPI Brussels Bureau Chief; then, as *Newsweek's* chief foreign correspondent, he interviewed most of the world's well known leaders, saw the misery of seventeen wars and witnessed major world events.

In that role, de Borchgrave was stimulated by what forty years of world traveling had shown him. He has seen why competitive, uncensored media are essential for democracy to function. Yet surprisingly, the capital of the free world, Washington, D.C., was a city with no choice because it had only one major metro newspaper.

Then, about two years ago, de Borchgrave became the editor of the first growing metro newspaper created in decades — *The Washington Times*.

Now, de Borchgrave and over 230 talented journalists compete to provide news and an alternative viewpoint.

The report card:

- Almost every day, the *Times* has something important you don't see elsewhere," said the monthly "American Spectator."
- Charles Peters, the respected editor of *Washington Monthly*, said that the *Times* has been beating the *Post* consistently at some important stories.
- *The National Journal* placed *The Washington Times* among the most influential institutions in the nation's capital.
- *The Associated Press* has cited *Washington Times'* exclusives over 120 times in just 16 months.

The Washington Times is fast becoming a great newspaper, because of its talented staff. And guiding its progress, Arnaud de Borchgrave and his staff have a simple credo: report the news hard, first, and above all, accurately.

And those efforts are why the man, dubbed the last great foreign correspondent, is helping create one of America's great newspapers.

The Washington Times

We hit what The Post misses.

CORRECTIONS & CLARIFICATIONS

- J. Walter Thompson USA will not get exclusive rights to data provided by R.D. Percy & Co., a new tv commercial ratings company, as previously reported (AA, Nov. 17, P. 6). Percy said it has a policy of not offering data exclusively to any client.
- *Workbasket* has corrected its January-to-November, 1986, ad linage total (AA, Nov. 17, P. 101). The correct total is 350.1 pages.
- A caption with a photo of a *Reader's Digest* reception in Williamsburg (AA, Nov. 17, P. 92) mistakenly identified Mrs. Albert Cole as the wife of retired U.S. Chief Justice Warren Burger. Mrs. Cole was with her husband, director emeritus of *RD*, Justice Burger and *RD* senior counselor Melvin Laird. *RD* supplied the caption.#

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Smokers ridin' hard to Marlboro Country

Cigaret industry maintains strength

By JOHN C. MAXWELL JR.

Marlboro, long recognized as the largest-selling cigaret brand in the U.S. as well as the rest of the world, also is the world's largest-selling package-goods product.

On a factory shipment basis in 1985, Marlboro probably had about $6 billion in sales. As such, it surprisingly surpasses Coca-Cola in gross sales and product turn. This phenomenal and continuing success story defies current tobacco market trends.

While most of the activity in the tobacco industry this year has been among the price/value entries, New York-based Philip Morris Cos.' Marlboro is expected to exhibit one of the largest share gains of all standard-price brands—tying with Lorillard's Newport—with an increase of a half a share point.

In addition, Marlboro's 1986 projected volume, nearly 134 billion units, will be the highest ever recorded in the history of the industry, while its market share of 22.9% is the highest of any brand in the U.S. in more than 30 years and is twice that of its closest competitor.

Even more impressive is Marlboro's dominance of the under-35 age category with a 37% share. In fact, Marlboro is the No. 1-selling brand among male smokers, females, high school or college-educated people and those living in Spanish-speaking households.

Of the top 10 U.S. cigaret brands, only Marlboro has enjoyed 21 years of uninterrupted growth in both volume and share; it has held its No. 1 position for the longest consecutive period (12 years, 1975 through 1986), and we see this continuing.

A single-minded marketing philosophy, which effectively reinforces its position in the marketplace, is the basis of the brand's consistent growth.

In addition to the highly visible Marlboro Country advertising from Leo Burnett USA, Chicago, the brand has been supported by promotional programs that enhance and extend that image among Marlboro's prime smokers.

Marlboro's outstanding track record is all the more remarkable when one considers the current proliferation of tobacco brands.

When the brand was positioned in 1954 as a full-flavor, cork-tipped cigaret, it was one of 37 packings in the industry.

Today consumers can choose from among 281 packings.

Even so, when the purchasing decision is made, Marlboro remains a commanding No. 1.

While cigaret volume continues to decline, the combination of lower leaf prices, higher plant efficiencies and acquisitions results in new highs for the industry's earnings.

In addition, the throw-off of billions of dollars of excess cash can be used for future acquisitions, debt repayment, share repurchases and higher dividends.

The dividend stream has been moving up steadily in the past decades, and we see no reason for this to change.

Also, the industry had been paying full tax rates, so the drop to 34% federal tax will help cash flow.

Full-year 1986 industry shipments are projected at a little less than 583 billion units—a decline of 2.1% from '85.

As noted in past reports, quarter-by-quarter shipment comparisons have been abnormally influenced by wholesale inventory swings. A significant trade inventory accumulation occurred in the fourth quarter of 1985, caused by excise tax concerns. Smaller inventory changes occurred in each subsequent quarter due to various company trade inventory programs.

Presuming that cigaret marketers and the trade will follow their historic pattern, trade buying in anticipation of a December/January price increase should somewhat offset last year's inventory buildup.

According to measures of retail sales, such as Nielsen's, the industry's actual rate of decline is somewhat lower, about 1.6%. This rate also is consistent with other sources, such as state tax collections.

Similarly, while quarterly company shares are not representative of the marketplace, annual market shares are reasonable indicators. Philip Morris and RJR Nabisco, Winston-Salem, N.C., are projected to lead all other companies in share growth with gains of a little less than 1 share point each.

PM's 36.8% share will be another record.

Brown & Williamson Tobacco Corp., Louisville, and American Brands, New York, are expected to incur small share losses.

The falloff will be particularly sharp for Liggett & Myers Tobacco Co., Durham, N.C., down 1 share point because of weakness in its generics.

Regarding the standard-price brands, Marlboro will have the best performance again. The 1986 share (22.9%) and volume (nearly 134 billion units) are projected to set new highs, and it will gain 0.5 share points versus 1985.

Newport (3.9% share) will continue to record strong share advances (0.5 point) and the biggest unit jump of the major brands, amounting to about 12%. PM's Virginia Slims (2.9% share), aided by the introduction of Lights 120s, is expected to grow by 0.1 share point.

RJR's Camel should maintain its share, but virtually all the other major brands will lose between 0.1 and 0.3 share points.

The price-value brands remained strong in 1986 as the segment's share is expected to exceed 9%. We believe from here on out this grouping will grow at least 1 share point a year, if Lorillard and American Brands ever decide to get in at a slightly faster rate.

The segment is equally divided between the branded and the value 25s versus generics. RJR's Doral set the pace and should gain 0.7 share points over full-year 1985. Doral will reach a peak share of about 2.3% in the fourth quarter.

PM followed RJR into the "branded generic" category with a successful May, 1986, introduction of Cambridge Lights, which will close the year with a 0.6% share. Value 25s (1.8%) are strong due to the national introduction last March of B&W's Richland 100s, as well as the reintroductions of RJR's Century (February) and PM's Players Lights (September) in a 10-pack carton.

Despite a modest full-year share advance versus 1985, the generics' (black-and-white or private-label) share position is now slowly eroding.

Liggett's generic share will be almost halved versus last year by the success of B&W, PM and RJR.#

Mr. Maxwell is with Furman Selz Mager Dietz & Birney, New York.

Shares of cigaret market

	1985	1986	Change
Philip Morris	35.9	36.8	0.9%
RJR Nabisco	31.6	32.4	0.8
Brown & Williamson	11.9	11.5	(0.4)
Lorillard	8.1	8.1	—
American Brands	7.5	7.2	(0.3)
Liggett	5.0	4.0	(1.0)
Total	100.0	100.0	

Cigaret's top ten

Preliminary estimated year-end figures show that while the leading brands either dipped or remained flat, No. 1 Marlboro continued its upward surge. *Source: John C. Maxwell Jr.*

Company / Brand	Units 1985	Units 1986	Per cent 1985	Per cent 1986
Philip Morris				
Marlboro	133.30	133.70	22.4	22.9
Benson & Hedges	27.70	25.48	4.6	4.4
Merit	24.18	23.10	4.1	4.0
Total	185.18	182.28	31.1	31.3
RJR Nabisco				
Winston	67.54	65.96	11.4	11.3
Salem	47.14	45.15	7.9	7.8
Camel	25.86	25.18	4.3	4.3
Vantage	19.85	18.81	3.3	3.2
Total	160.39	155.10	26.9	26.6
Brown & Williamson				
Kool	40.48	37.82	6.8	6.4
American Brands				
Pall Mall	20.60	18.56	3.5	3.2
Lorillard				
Newport	20.31	22.70	3.4	3.9
Total, top 10	426.96	416.46	71.7	71.4

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YOUR SOAP OPERA DIGEST IDEA'S GOING TO MAKE ME LOOK GOOD. SO, I'M RETURNING THE FAVOR.
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Special Report

Profit picture sends operators a clear signal

By Wayne Walley

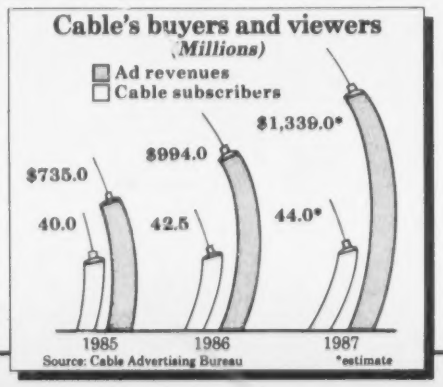
Cable tv enters a new age at the turn of the new year as the pricing of basic cable services is deregulated.

This means that rates charged for basic services by cable operators that experience competition from over-the-air broadcasters no longer will be regulated by the government.

"Now we'll have to do business a whole different way," says Margaret Durborow, vp-marketing/programing, United Cable, Los Angeles, the nation's eighth largest multiple systems operator.

Depending on how cable operators react to the freedom to set basic and pay-cable rates, the future of the premium services, particularly Time Inc.'s Home Box Office/Cinemax and Viacom's Showtime/The Movie Channel, hangs in the balance.

These movie-driven channels helped attract millions of subscribers to cable tv during the boom years in the early 1980s. But now that they are being challenged by videocassette recorders, movie rental outlets, cable's new pay-per-view services and a penny-wise consumer, the drawing power of commercial-free cable has dwindled.



"With the duplication of product, high prices and the increased competition from videocassettes, deregulation could be the death knell for premium services," says Jack Heim, exec vp-business development, sales and affiliate marketing at New York-based Showtime.

"Three or four years ago most people needed cable tv for good reception. The basic service back then cost $8. Pay cost $10. It had luster. It was the first place to see movies on tv without commercials.

Pay was worth more than all the basic cable channels combined. That's no longer true. The vcr has destroyed the previous value of premium services. We have to change that," Mr. Heim says.

(Continued on Page S-4)

Profit a clear signal

(Continued from Page S-1)

To survive, the pay services have taken the offensive. They —Showtime/The Movie Channel and HBO/Cinemax—are fighting for exclusive movie contracts, dropping prices and stepping up production of original pay tv series, specials and sporting events.

Both HBO and Showtime spent millions on aggressive marketing and promotional campaigns such as "The HBO Knockout Fall" and Showtime's "Heat Is On" to attract new subscribers this year.

However, is that enough to keep things going/growing?

"The future of the premium services is the big question," says United Cable's Ms. Durborow, "We see an extensive softness in the [premium services] marketplace, and it could become more of a support system than a primary attraction."

The advent of pay-per-view, cable's new weapon against the videocassette rental market, also looms as a big threat to the future of movie-driven channels.

"Pay-per-view means we have to establish criteria for using shelf space as does any retail business," says Ms. Durborow. "In the past we'd load up with premium services because it was the way to increase profit margins," she says, "but pay-per-view revenues for cable operators exceed that for the premium services.

"In the future I see multi-pay-per-view channels on each system offering different types of movies. After all, we are a convenience-driven society. What can be simpler than pay-per-view?"

"My exercise today is to look at what every channel gives and adds in value and how important the service is to subscribers. Will the premium channel survive? I have faith in Time Inc. and Viacom to do what's necessary to create valuable services," she says.

Both Time Inc. and Viacom have taken a cue from The Disney Channel, the fastest growing pay service in the U.S. Launched in April, 1983, the service already has 2.5 million subscribers and boasts that it is now the main source of revenue growth for the entire pay tv industry.

"Disney has other benefits besides movies," says Stephen Fields, vp-consumer marketing at Burbank, Cal.-based Disney. "With family shows, children's programing and exclusives, whether they be specials, series or movies, it's a unique bundle of entertainment the viewer can't get anywhere else."

The Disney Channel has offered cable operators incentives to lower the channel's subscription price. It has often given free previews to basic cable subscribers, and it has used numerous joint marketing campaigns to promote itself. Once the new kid on the cable block, the service is now on the cutting edge with HBO and Showtime picking up from its lead.

"We knew we had to fix our product," says Showtime's Mr. Heim. "We've done that with exclusive movies, original series and more. Now we've got to adjust the cost and do the marketing to help people understand the value of each channel," he says.

HBO and Showtime's hard sell to the cable operators has also worked, as most have agreed to price reductions to help keep pay-service subscribers.

"We can't simply burden our subscribers by upping prices for everything," says Craig Ehrlich, vp-development, Falcon Cable Television, Pasadena, Cal. "And we can afford not to because advertising sales is proving itself."

Last year, according to Carmel, Cal.-based Paul Kagan Associates, a tv industry analyst, local cable operators across the country brought in an estimated $139 million in advertising revenue. This figure could rise to $187 million in 1986.

At the same time, annual cable tv advertising billings could reach $948 million this year compared to 1985's estimated $767 million.

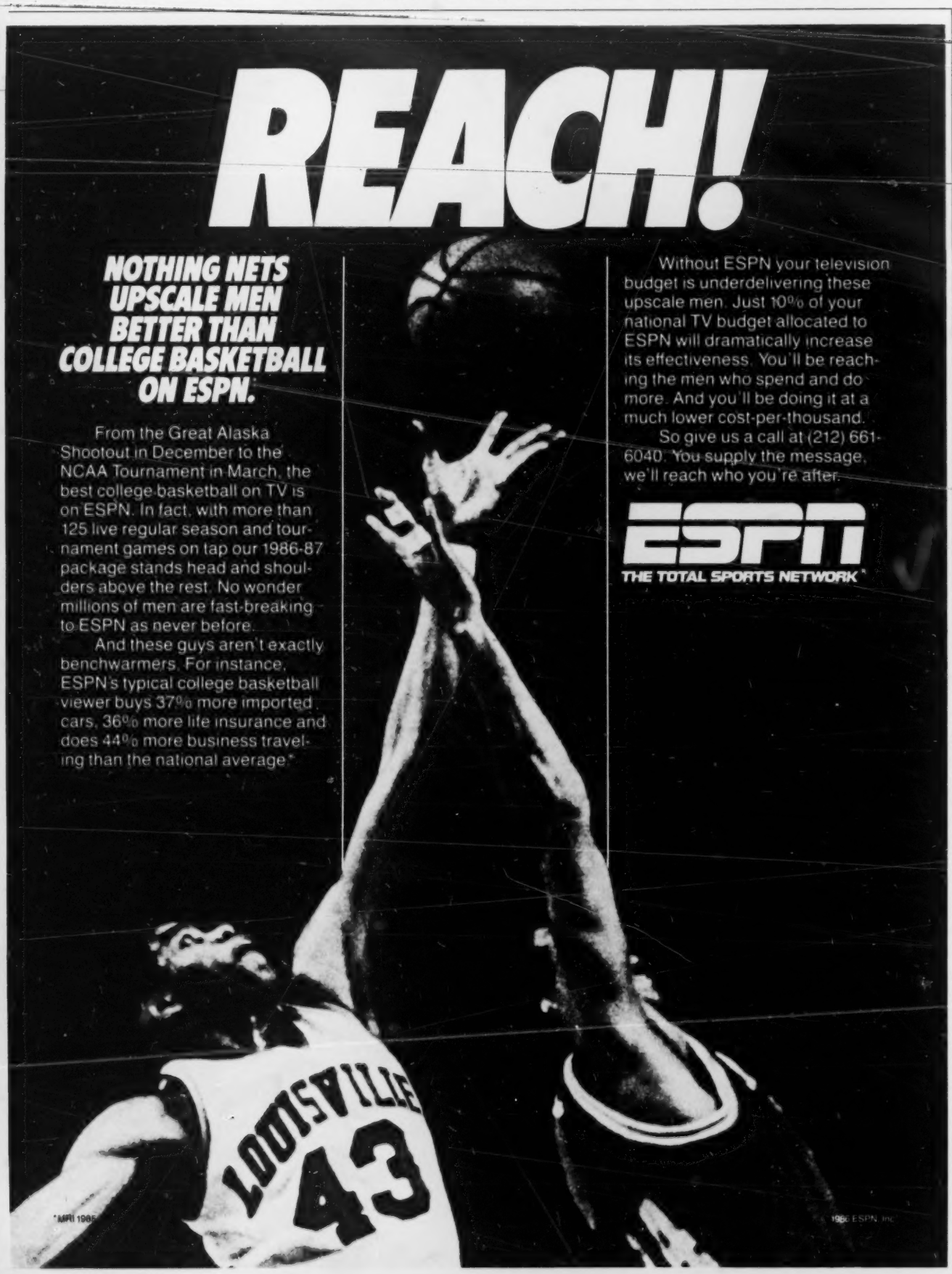
This compares to the three-network revenue projection of $8.7 billion. But by 1995, Kagan Associates sees ad-supported cable networks grossing $2.8 billion with another $1.2 billion generated by local systems.

"[Growth in ad revenues] is a big step toward moving cable into the mainstream," says United's Ms. Durborow. "But we also have lots of other challenges. We need to mass-market cable so it becomes the norm.

"We'll have to be real, live marketers. We used to be guaranteed a profit. Now we'll have to be market-sensitive, get a handle on price value and run the business more efficiently."

That doesn't sound impossible. Some businesses, such as banking and airlines, have flourished under deregulation; others, on the other hand, have stumbled and never recovered.

"Cable technology has to be more user friendly and become transparent. The telephone is a perfect example of that. Instead of becoming more complex, it has to be easier and I think it will," says Ms. Durborow.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Cable tests hot-wired to consumer preferences

By Judann Dagnoli

More than a decade after the first satellite-delivered programing, cable tv is still struggling for legitimacy as an advertising medium.

It still has trouble attracting national advertisers. Only 1.2% of the $35.5 billion in media billings placed by the top 500 U.S. ad agencies in 1985 went to cable, as opposed to 26.6% to network tv. (AA March 27, 1986.)

But by creating its own programing, lobbying for standardized channel positions, promoting specific rather than generic programs and working toward a fair and acceptable audience measurement system, the cable industry hopes to improve its image and its position.

It is trying to turn what has generally been considered a negative—its narrow reach—into a positive. Cable has always been touted as a vehicle that can reach specialized demographic groups, and advertisers are beginning to see that kind of narrow reach as a bonus in testing commercials.

If you are a cable tv subscriber living in one of the country's major test markets, for example, chances are the commercial you might watch for V-8 vegetable juice during your favorite soap opera is really a test spot for Campbell Soup Co.

The Camden, N.J. marketer is one of several consumer products giants, including Bristol-Myers Co., Colgate-Palmolive Co., Gillette Co., Johnson & Johnson and Procter & Gamble Co., that uses cable as a testing ground for its advertising.

Through research services such as Chicago-based Information Resources and ASI Market Research, a New York-based unit of IDC Services, major marketers are now using cable to experiment with variables such as frequency, copy impact and media mix.

Cable systems can be used to single out markets where an advertiser may have a low market share or a regional problem such as a strike. Advertisers can experiment with different approaches to find the best mix on a regional basis before moving a program nationally.

In a test for product seasonality, Campbell accelerated advertising for its hot soups in selected cable markets during the summer, says Tony Adams, director-marketing resources and planning.

Campbell, which has worked with IRI for the past five years, also has used different copy treatments and frequencies on cable systems to target soup consumers like children, he says.

Cable tests can also be used to measure the effectiveness of commercials. ASI, which lists ABC, Alberto-Culver Co., Chesebrough-Pond's, International Business Machines and NBC as clients, runs two services: Recall Plus, which measures day-after recall of tv commercials and gives an in-depth assessment of the commercials' performance, and Apex, which determines the ability of a commercial to motivate and persuade viewers.

The company inserts commercials into half-hour family-oriented programs aired during prime time on cable systems. The spots are tested in two different areas of the country in samples of 100 randomly selected households for each location. Interviewers will then call those households to determine recall.

A.C. Nielsen's ERIM Testsight Service, Deerfield, Ill., combines cable and over-the-air testing. In two test markets, with an eventual goal of ten, ERIM tests media plans for clients and measures results with scanner information at supermarkets. "Basically, we are testing a commercial response in relationship to household purchases," says Laurence Gold, vp-marketing, Nielsen Market Research.

In the ERIM system, a marketer substitutes test commercials in place of those spots that would ordinarily appear in its customary media schedules. A control group views the company's regular spots, and a test group views only the test spots. Both groups are issued cards to present at checkout counters so Nielsen can determine how purchasing decisions were influenced by the spots, Mr. Gold says.

ERIM recommends about a year for a test, he says. "Advertising, typically, takes a long time to work, unlike promotion, where there is a high jump in sales right away." The system also can test promotions, he says.

With the Nielsen system, Mr. Gold says, an advertiser can test several marketing plans. For example, it can determine whether Plan A—a heavy frequency and couponing program—or Plan B—a normal advertising schedule with a heavy run-of press in newspapers—sells the product better.

The ERIM system is designed for broadcast as well as cable households because cable-only delivery offers "a large potential

Top 10 cable advertisers

1. Procter & Gamble Co.	$30,487,371
2. Philip Morris Cos.	21,061,420
3. Anheuser-Busch Cos.	15,345,131
4. General Mills	12,144,905
5. Time Inc.	11,006,706
6. Mars Inc.	8,163,657
7. RJR/ Nabisco	7,530,852
8. Thompson Medical Co.	7,060,414
9. Ford Motor Co.	6,159,088
10. Kellogg Co.	4,554,186

Source: Cable Advertising Bureau, 1984-85

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2 CBS
3 HEADLINE NEWS AROUND THE WORLD EVERY 30 MINUTES
4 ABC
5 City Government
6 NBC
7 PBS
8 USA CABLE NETWORK USA Network
9 ESPN THE TOTAL SPORTS NETWORK 24 Hour Sports
10 CNN Cable News Network-24hr
11 MTV MUSIC TELEVISION Music Television
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Disney Channel no fantasy

By Wayne Walley

Disneyland is often labeled the happiest place on earth, and now The Disney Channel in Burbank, Cal., is being similarly described.

Launched in April, 1983, the premium service stumbled, tripped and crawled through its first two years, but then mushroomed into the fastest growing pay tv channel in the country, despite competition from videocassette recorders and movie rental stores, cable's pay-per-view and the other pay services.

As of Jan. 1, 1986, the channel had 2.55 million subscribers, up from 1.65 million in 1985, and 3,000 cable operator affiliates, about 500 more than in 1985. It could pass both Cinemax, New York, (3.7 million subscribers) and The Movie Channel, New York, (3.2 million) later this year. (Time Inc.'s Home Box Office, New York, the oldest and most established pay service, has 14.6 million subscribers while Viacom's Showtime, New York, has 5.4 million.)

But while the other pay channels face the upcoming deregulation of the cable industry with uncertainty, The Disney Channel anticipates continued growth.

"We're a different product," says Stephen Fields, vp-consumer marketing, The Disney Channel. "We don't rely on movies. We have fresh programing, and we want to be the best family-oriented service."

Despite its "Disney-is-for-children" image, research proves the channel is bridging any generation gaps. At least 33% of Disney Channel subscribers do not have children under 12; 35% of its subscribers are age 40 and older. And, compared to the percentage of tv households with a videocassette recorder, twice as many Disney Channel households own one.

A customer satisfaction survey in early 1986 found 94% believe the channel is as good or better than expected and 96% were likely to continue subscribing for six months.

And it's not counting on just Mickey Mouse appeal, either.

"For three years we relied on the Disney library and played the titles many times, but now we're more unique," says Mr. Fields.

"We're the exclusive outlet for new Disney movies. We'll have future showings of the different Disney Sunday movies first aired on ABC. We have original series like 'Danger Bay,' new miniseries such as 'Disney's Return to Treasure Island' and

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for distortion [of results]," Mr. Gold says.

Because only 45% of all U.S. households are wired, cable is not a true measure of the nation's tv households, he says. And cable-subscriber purchasing patterns are different from the norm because cable subscribers tend to be more upscale than the average tv viewer.

They also watch less network tv, he says. According to the Cable Advertising Bureau, New York, during the second quarter of 1986, viewing of network affiliates in cable households was 28 hours and 57 minutes per week, while network viewing by non-cable households was 31 hours and 8 minutes during the same time frame.

Cable's testing capabilities are not limited to commercials. It is also used to evaluate, and sometimes create, new programing.

Bruce Rosenblum, senior vp, Lorimar-Telepictures, Los Angeles, says his company used cable not just to test, but to develop its "Thundercats" children's cartoon last year. Using ASI Research, L-T aired a six-minute video that gave a rough description of the show's characters and a sketchy plot outline on six cable systems.

ASI contacted viewers in the areas served by the cable systems and queried them about the concept. The response enabled L-T to shape the program accordingly to what the children found most appealing.

Of those interviewed, 90% found the concept clever and imaginative, he says, adding that the usual positive response range is around 75%. More than 70% of the interviewees indicated they would watch "Thundercats," Mr. Rosenblum says.

While proving the show's popularity made the test cost-effective—launching a show could have cost L-T $15 million—the results also provided ammunition for L-T's claim to both stations and advertisers that the show would be a sure-fire hit, Mr. Rosenblum says.

Last month L-T tested "Down to Earth," a family sitcom recently acquired from Atlanta-based Turner Broadcasting System. The program was tested in a theater with an audience of "diehard" network sitcom viewers, Mr. Rosenblum says, because cable-produced programing tends to be seen as inferior to broadcast programing.

The program tested behind "Family Ties" and "Growing Pains," but ahead of "Silver Spoons."

That test "helped us sell the show to stations that may not have thought it was the same quality [as a broadcast show] because it aired on cable," he says.

The results showed advertisers they could reach children with a syndicated show rather than with a more expensive network buy. "Advertisers were forced to rethink their position," Mr. Rosenblum says.

Cost efficiencies also are the goal of major advertisers in testing commercials. Cable testing can save an advertiser 20% to 50% more than other testing methods, Campbell's Mr. Adams says. A test of six combinations of ad schedules on a cable system might cost only $300,000, he says—about the price of one spot on the Cosby show.

In addition, testing is being used by local cable systems to attract advertisers. Robert Owens, president-chief executive officer of Owens Cablemetrics, New York, and previously vp-general manager of Arbitron Ratings, has set up an electronic questionnaire on local origination channels.

Called RIVAC, Respondent Interviewing Via Access Channel, it operates in conjunction with eight or nine multiple systems operators in New York, Connecticut, Texas and Kansas.

Subscribers are provided a diary in which they record their responses to questions asked by a videotaped interviewer.

The cable system uses the results to sell ad time. For example, a local video store could be provided with information about the number of videocassette recorder owners in the cable area.

Cable capablilites and demographics are increasingly utilized to answer the questions facing advertisers in a segmented marketplace. "Target marketing is as yet an imperfect science," ERIM's Mr. Gold says. But the kind of information that research services can supply is invaluable in determining what motivates consumer spending. ■

more. We're also using non-Disney shows which fit in with the programing—Dr. Seuss shows, several 'Peanuts' specials, 18 Shirley Temple movies and some Bob Hope 'On The Road' films."

Original shows constitute at least 35% of The Disney Channel schedule and another 45% of its programing also is unavailable elsewhere.

At the same time, The Disney Channel is a leader among pay services in repricing itself so affiliates can offer it at a reduced rate, giving subscribers a better value for the money. (Pay services normally cost between $10 and $12 per month, but some operators can slash The Disney Channel's retail price to as low as $6 per month.)

Disney hopes to reduce costs to cable operators and to subscribers across the board because, Mr. Fields says, "In every case where the retail price has been reduced, it's increased the profitability—dropping prices always brings in subscribers."

The lower cost also helps the channel's marketing and promotional campaigns, another area in which Disney is on the cutting edge for cable tv. In November, the channel offered a national seven-day free preview in more than 20 million cable homes and will start its free installation and free first month program in January. ■

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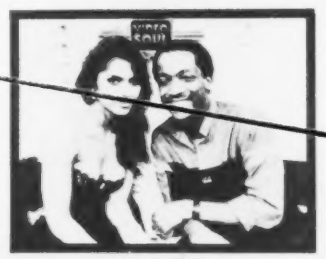

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Advertising Age's global media lineup

	Title/ publisher	Major printing plants for int'l. editions	Paid N. American circulation (% chg. from 6/85-6/86)	Paid foreign circulation by region (% chg. from 6/85-6/86)		Worldwide circulation (% chg. from 6/85-6/86)	Cost of worldwide B&W page ($/1987)	Global CPM B&W pg. ($/1987)	Top worldwide advertisers (1986)
DAILIES	***Financial Times of London*** Financial Times Ltd. London	London Frankfurt Bellmawr, NJ	10,450[1] (+59.7)	Europe: 217,837[2] Middle East/Africa: 3,983[2] Asia/Pacific: 3,046[2] Latin America: 191[2] West Indies: 171[2]	(+6.7) (−0.9) (+5.9) (+1.1) (−9.0)	253,180[1] (+9.6)	full: 25,984 qtr: 6,496	103.00	Chase Manhattan Bank Guinness British Telecom Mercedes-Benz Lufthansa Airlines
	International Herald Tribune New York Times & Washington Post Neuilly Cedex, France	8 cities around the world	2,928[3] (+29.3)	Europe: 130,361 Asia Pacific: 25,984 Middle East/Africa: 7,873 Sub-Sahara Africa: 1,754 Other: 1,334	(+3.6) (+3.7) (−10.9) (−4.6) (+58.2)	170,234 (+3.4)	full: 32,860 qtr.: 8,215	193.03	Intercontinental Hotels NCR Corp. Trade Development Bank Lufthansa Airlines Sp. Nat'l.Tourist Office
	USA Today Gannett Co. Arlington, Va.	Singapore Switzerland	1,459,049[1] (+7.8)	Europe: 20,877[1] Asia: 7,813[1]	(+33.5) (NA)[4]	1,487,739 (+8.7)[1]	full: 35,195 qtr.: 13,776	23.66	AT&T Volvo Marlboro Stouffers Hotel FTD Florists
	Wall Street Journal Dow Jones & Co. New York Zurich	Hong Kong Singapore Heerlen, Neth.	1,985,559[5] (−0.2)	Asian WSJ: 31,622 WSJ/Europe: 35,379	(+11.4) (+10.5)	2,052,560[6] (+0.1)	full: 96,312[7] qtr.: 24,078	46.92	Chase Manhattan Bank[8] Lockheed IBM Solomon Bros. Hewlett-Packard
WEEKLIES	***Business Week*** McGraw Hill New York	Philadelphia, PA	788,222 (−0.9)	Europe: 48,422 Asia: 22,809 Latin America: 16,566 Other: 1,256	(+7.1) (+7.6) (+1.7) (−7.9)	877,127[9] (−0.1)	full: 34,570	39.47	N.V. Philips[8] Hewlett-Packard Northern Telecom IBM Thai Airways
	The Economist The Economist Newspaper London	Connecticut London Singapore	112,483 (+7.4)	Europe: 136,070 Asia/Pacific: 24,437 Africa: 6,668 Middle East: 5,846 Central & S. Am.: 4,983	(+6.5) (−2.6) (−16.5) (−24.8) (−1.1)	290,487 (−4.3)	full: 6,550[7]	22.55	Singapore Airlines Lockheed Lufthansa Airlines Northern Telecom Pratt & Whitney
	Guardian Weekly Guardian Publications Manchester, England	Montreal Lincoln (U.K.)	24,569 (+1.4)	Europe: 18,373 Asia: 13,150 Middle East/Africa: 5,817 Latin Am.: 1,365 Other: 455	(+10.4) (+4.6) (+6.7) (+4.0) (+14.6)	63,729 (+5.2)	full: 1,234	19.35	Tyndall Managers Amnesty International Bumpus Haldane Maxwell W.T. Fry Standard Chartered Bank
	Newsweek Newsweek Ltd. New York	Zurich Tokyo Hong Kong Daytona Beach	3,088,367 (+0.9)	Atlantic: 319,130 Latin America: 55,058 Asia: 203,282 S. Pacific: 125,200 Nihon Ban: 133,486	(+5.8) (+9.9) (+10.8) (+0.2)[10] (NA)[11]	3,924,523 (+5.5)	full: 89,000[7]	22.68	Rupperts Int'l[8] Singapore Airlines British American Tobacco Rolex Philip Morris
	Time Time Inc. Publications New York	Toronto Miami, FL Weert, Neth. Melbourne Hong Kong	5,204,634 (+3.3)	Atlantic: 535,273 Asia: 269,311 S. Pacific: 138,541[12] Latin Am.: 90,472	(+0.8) (+4.7) (−16.5) (−0.3)	6,238,232 (+3.0)	full: 120,923[7]	19.38	Rothman's Group of Cos.[8] Singapore Airlines IBM Philip Morris Rolex
MONTHLIES	***National Geographic*** Nat'l Geographic Society Washington, D.C.	Corinth, MS	9,551,388 (+3.1)	Atlantic: 680,597 Pacific: 375,202 Latin Am.: 94,259	(−0.9) (−1.9) (+2.4)	10,690,714[9] (+2.3)	full: 12,720	11.19	Canon[8] Iberia Airlines Olympus Lufthansa Airlines Minolta
	Reader's Digest Reader's Digest Assn. Pleasantville, N.Y.	24 cities around the world	18,109,000 (−8.3)	Atlantic: 6,934,000 Pacific: 1,658,000 Latin Am.: 1,128,000	(−4.6) (−23.5) (−1.4)	27,829,000 (−8.2)	full: 219,995	7.90	Nissan Motor Co.[8] Unilever Kraft General Motors IBM
	Scientific American Scientific American Inc. New York	Old Saybrook, CT	496,012 (−11.1)	Europe: 55,061 Asia/Pacific: 21,297 Central & S. Am.: 5,640 Africa: 1,935 Middle East: 1,522	(−16.0) (+3.9) (+8.0) (−18.0) (+42.8)	583,066 (−10.9)	full: 19,450	33.35	McDonnell Douglas Hughes Aircraft General Motors AT&T Hitachi
	South South Publications Ltd. London	London Singapore	6,096 (+3.9)	Africa/Mid East: 34,422 Asia/Pacific: 22,925 Europe: 11,267 Latin America: 12,594	(+13.1) (+21.9) (+25.4) (+12.0)	87,304 (+8.9)	full: 3,063[7]	35.09	Ford Tractor Babcock & Wilcox Airbus N.V. Philips Hewlett-Packard
	WorldPaper[13] World Times Inc. Boston	18 countries around the world	232,000[14] (NA)	Latin America: 248,000 East Asia: 170,000 Middle East: 85,000	(+4.6) (−53.9) (−1.2)	735,000 (+6.6)	full: 39,030 qtr.: 13,660	53.10	AT&T Jim Beam IBM Seagram's Hertz
OTHER	***Fortune*** Time Inc. Publications New York	Zurich	641,621 (+1.5)	Europe: 55,019 Asia: 38,468 Other: 10,323	(−2.0) (+7.8) (+14.9)	745,431 (+1.7)	full: 29,440	40.61	AT&T IBM General Motors Corp. GTE Ford Motor Co.
	Harvard Business Review Harvard Business Review Boston	Glasgow, KY	192,596 (−10.2)	Europe: 9,777 Asia/Pacific: 6,758 Central & S. Am.: 2,576 Middle East/Africa: 2,460 Other: 973	(−15.0) (−10.7) (−18.2) (−21.2) (−16.3)	215,135 (−10.8)	full: 7,200[7]	33.46	General Motors N.V. Philips AT&T Digital Equipment IBM

[1]As of September, 1986.
[2]As of December, 1985.
[3]The Americas edition, started in March, 1986, is not included.
[4]Asian edition started in 1986.
[5]As of March, 1986.
[6]Combines North American figures from March and international figures from June.
[7]Page cost is for 1986.
[8]All advertisers in category are for non-U.S. editions.
[9]Worldwide total exceeds regional total because of different audit dates.
[10]In Australia, *Newsweek* is an insert in the *Bulletin*.
[11]Japanese-language edition of *Newsweek*.
[12]Joint venture with Fairfax Publications.
[13]Distributed as a newspaper supplement.
[14]Started in January, 1986, as a quarterly.

Source: Compiled by Advertising Age.